

Why Have Things Gone So Wrong?



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ECON 106A-1: Atkeson/Simon
October 20, 2010

Why Have Things Gone So Wrong?



Low 22% Aug. 2003

High 62% Feb. 2000

Low 22% July 2010

High 65% Aug. 2004

**California Field
Poll Approval
Ratings**

Why Have Things Gone So Wrong?

CAMPAIGN 2010 Governor's Race

Truth often a casualty in battle of political ads

By Joe Garofoli and Carla Marinucci
CHRONICLE POLITICAL WRITERS

California's governor's race has turned into a multimillion-dollar advertising game of "I know you are, but what am I?"

On Tuesday, Democrat Jerry Brown released two 15-second statewide TV ads lambasting his GOP opponent Meg Whitman as a "Pinocchio" for lying in her political advertising.

His move came in response to Whitman's new ad featuring former President Bill Clinton who, in his 1992 presidential primary debate with Brown, Campaign continues on A8

Inside

► **Support:** Former President Bill Clinton endorses Jerry Brown and accuses Meg Whitman of running misleading ads. **A8**

► **Matter & Ross:** Clinton defuses talk of a rift with Brown as the ex-president hits the campaign trail. **C1**



co Chronicle

PUBLISHERS ASSOCIATION | \$100 *****

Budget remains stuck in gridlock

State legislators vote down both Dem, GOP proposals

By Wyatt Buchanan and Justin Ho
CHRONICLE SACRAMENTO BUREAU

SACRAMENTO — The Legislature, as expected, failed on Tuesday to pass either of two competing budget plans to close the state's \$9 billion deficit as lawmakers debated different visions for future prosperity. The votes demonstrated that neither the Democratic nor Republican versions of a spending plan for the fiscal year that began July 1 has



Photograph by Michael Meyer / The Chronicle



San Francisco Chronicle

At long last, budget passed

Governor signs spending plan that plays big deficit with no new taxes

By Wyatt Buchanan
CHRONICLE SACRAMENTO BUREAU

BofA halts California foreclosure home sales

By Scott Lippman
CHRONICLE SACRAMENTO BUREAU

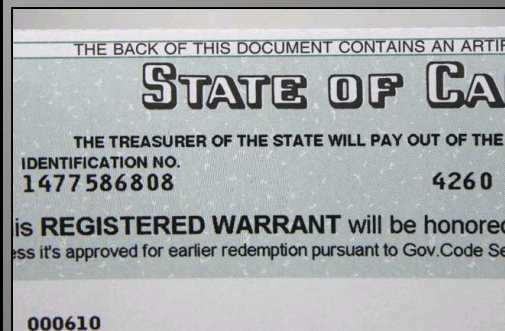


Illustration by Michael Meyer / The Chronicle





Why Have Things Gone So Wrong?



Choose your metaphor

Preview: Priorities





Today's Agenda



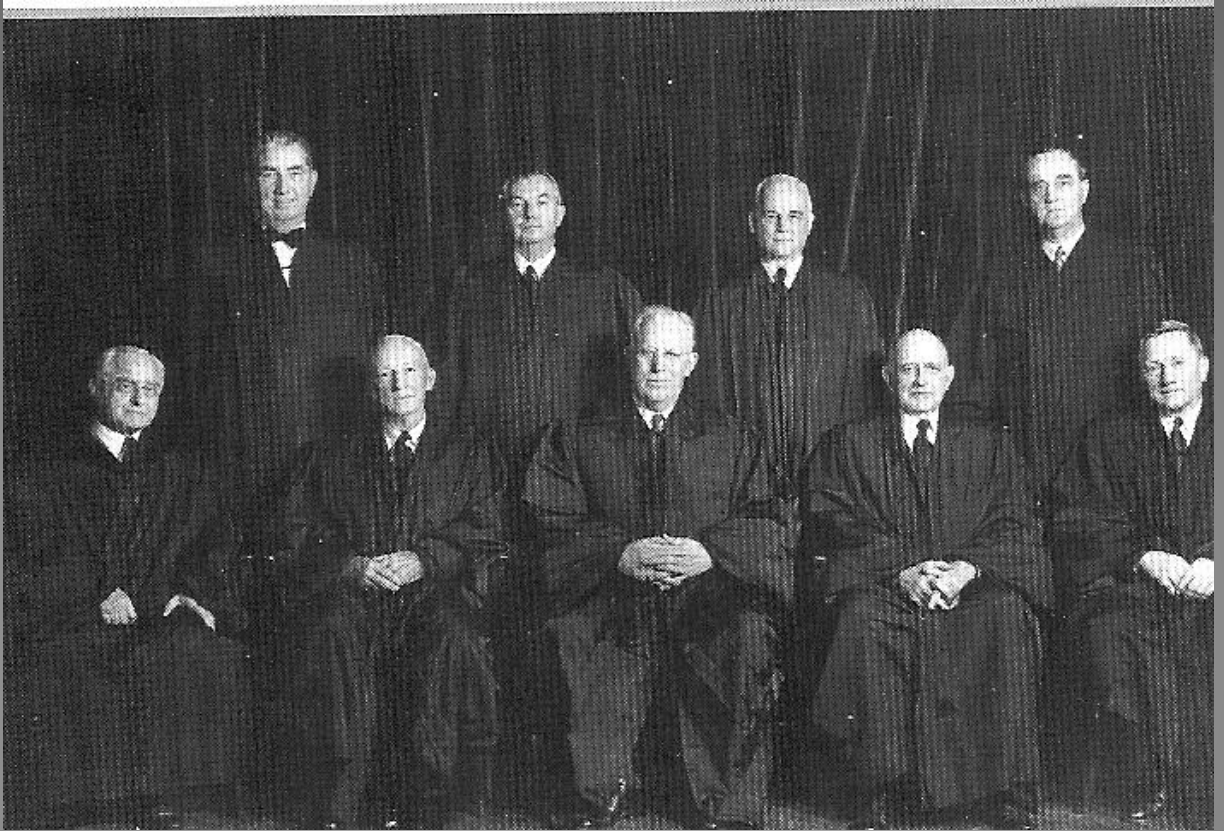
- **Lesson from the past**
- **Man on the white horse syndrome?**
- **How can Gray Davis be similar to Arnold Schwarzenegger?**
- **Budgets in the Davis period**
- **The Schwarzenegger years**
- **Budget accounting methodology**
- **Is there something more fundamental than personalities and the usual suspects for dysfunction?**

***What do you see in this
picture of downtown LA
from 1946?***





California Governor



The U.S. Supreme Court in 1953

Collier-Burns Act (1947)

- **Proposal: Put gas and other motor-vehicle related taxes into trust fund to avoid tax “diversion”**
- **Raise gas and related taxes to build freeways and other roads**





Universal Health Care

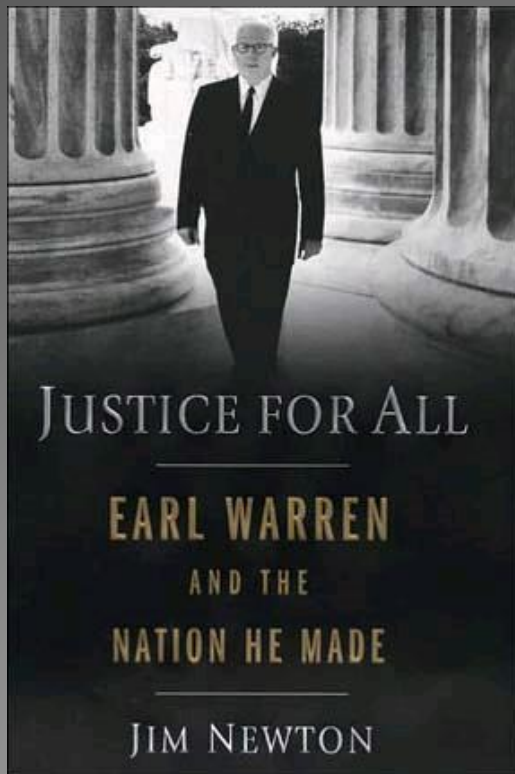
- State health insurance Plan
- Employer pay or pay
- Opposed by California Medical Assn. (doctors)
- Failed to pass



Moral

- Popular governor
- Landslide re-election
- More centrists in legislature than today
- Fewer institutional barriers than today
- Win one out of two





Human Resources & Organizational Behavior

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A409

Biography

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DANIEL J.B. MITCHELL is professor-emeritus at the Anderson Graduate School of Management and the School of Public Affairs, U.C.L.A. Within the latter school, he chaired the Department of Policy Studies (now the Department of Public Policy) during 1996-97. Prof. Mitchell was formerly director of the U.C.L.A. Institute for Research on Labor and Employment (1979-90) and continues to serve on the Institute's advisory committee. During Phase II of the federal wage/price controls program of the early 1970s, Prof. Mitchell was chief economist of the Pay Board, the agency that administered wage controls. He was twice associated with the Brookings Institution in Washington, D.C., including a stint as a senior fellow in the economic studies program (1978-79), and participated in several Brookings-sponsored research projects.

Professional activities have included memberships and committee responsibilities on the Executive Boards of the Labor and Employment Relations Association (both national and Southern California), the North American Economics and Finance Association, and the Institute of Industrial Relations Association. Prof. Mitchell is a past president of the North American Economics and Finance Association. He has also served on the nominating committee of the American Economic Association and on the editorial boards of various academic journals. He

Video: Dan Mitchell



TIME: 8 min. 14 sec.

Dispelling the Myth of the Wage-Price Spiral
Dan Mitchell, Ho-Su Wu Chair in Management

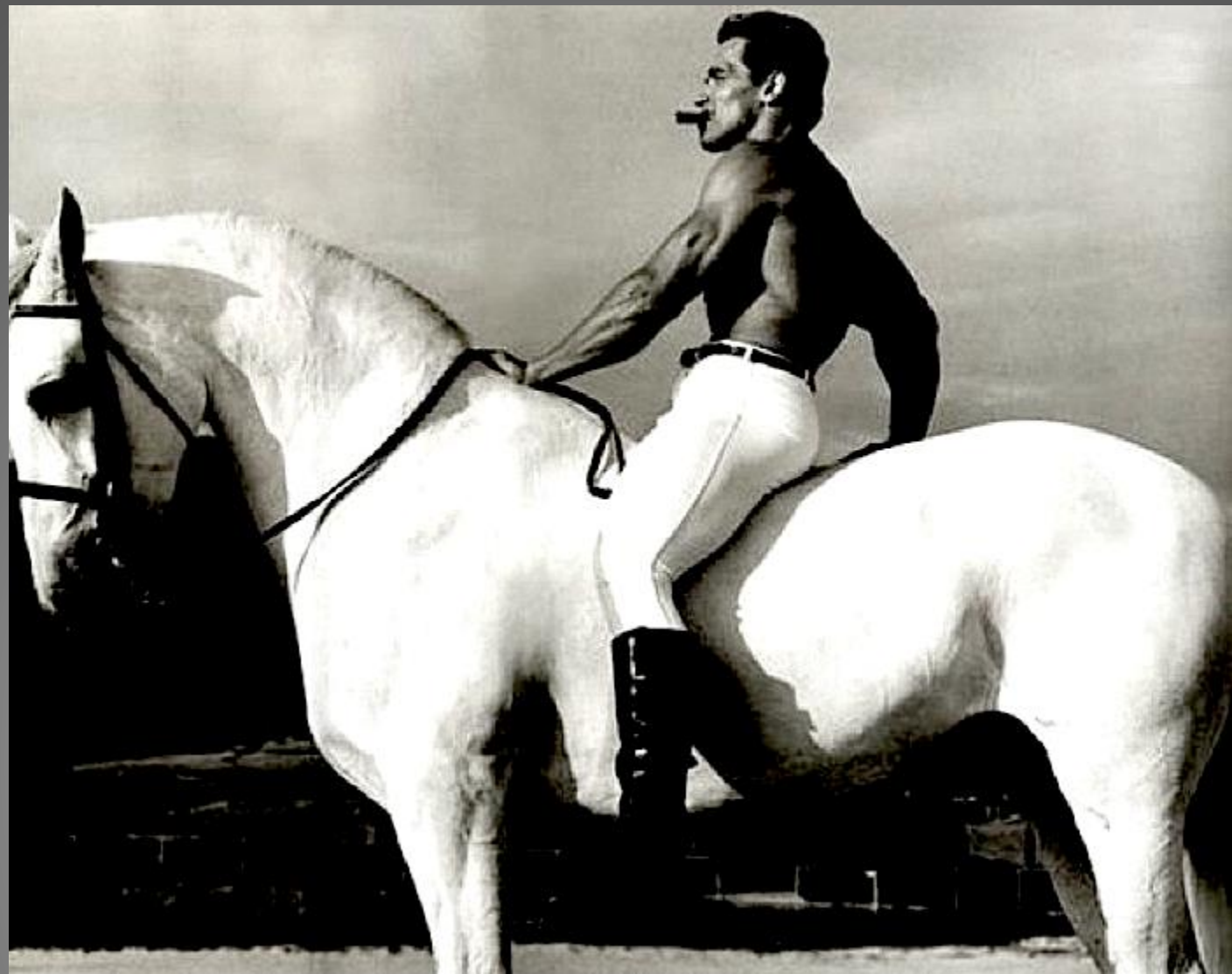
2003

The Recall Follows the Davis Budget Crisis of the Early 2000s



Davis Later Reflects on 2003





The Man on the White Horse Syndrome?



The Man on the White Horse Syndrome?

FORTUNE

ON DISPLAY UNTIL APRIL 6, 2009

CAN MEG WHITMAN SAVE CALIFORNIA?

THE FORMER CEO OF EBAY GEARS UP TO RUN FOR GOVERNOR
BY PATRICIA SELLERS
PAGE 66

INSIDE THE WORLD'S BIGGEST HEDGE FUND

BY BRIAN O'KEEFE
PAGE 77

MEL KARMAZIN FIGHTS TO RESCUE SIRIUS

BY JON BIRGER
PAGE 84

Meg Whitman
and Brandy
Half Moon Bay, Calif.
March 7, 2009

FORTUNE.COM

Woman on a Non-White Horse?



***Is the current budget crisis
an unpleasant surprise?***



Two scenarios



**Did the budget problem
just creep up when no one
was looking?**



Bird Scenario



Or did we really know
what was happening?



Casablanca
Scenario



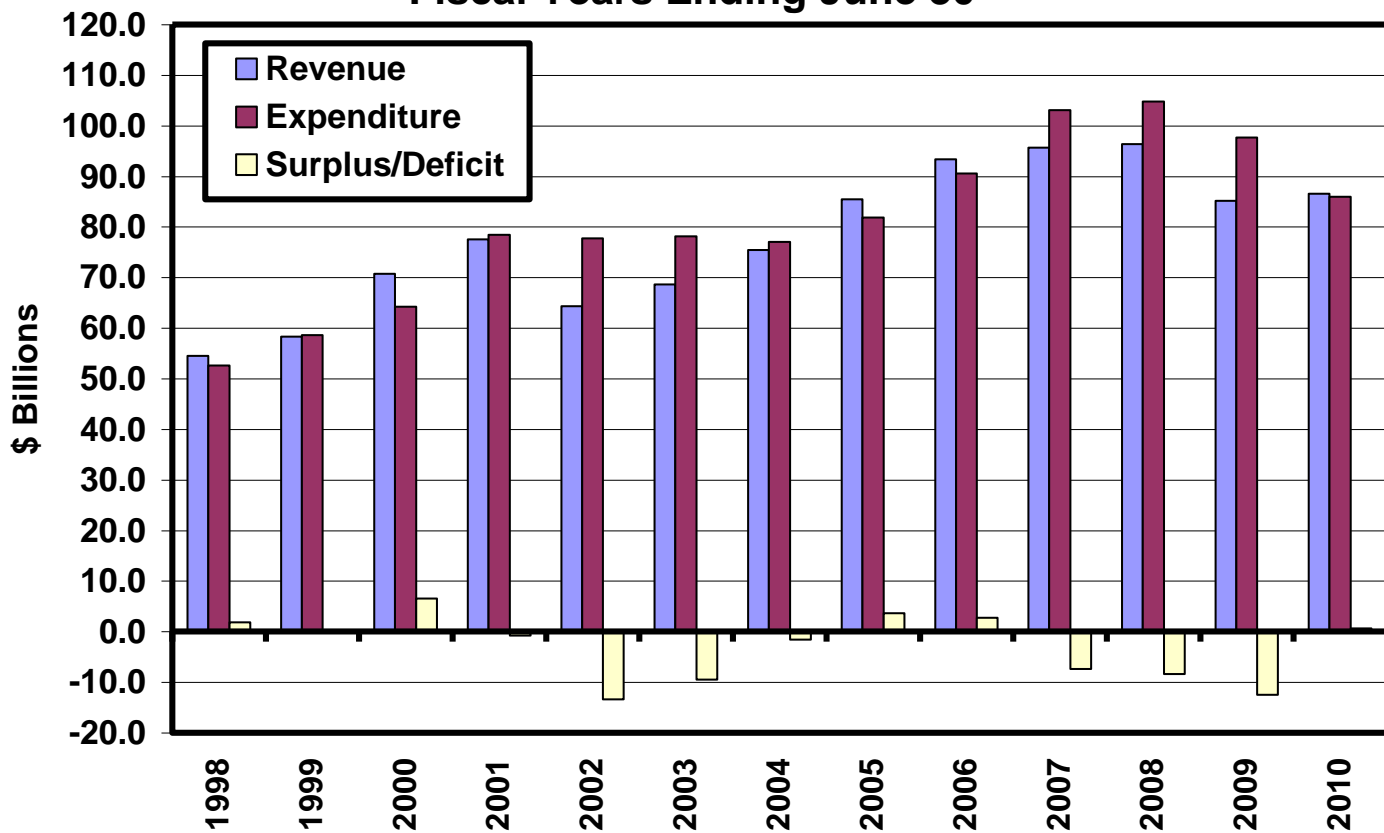
Or did we really know
what was happening?



Looking Backwards Before the Current Crisis

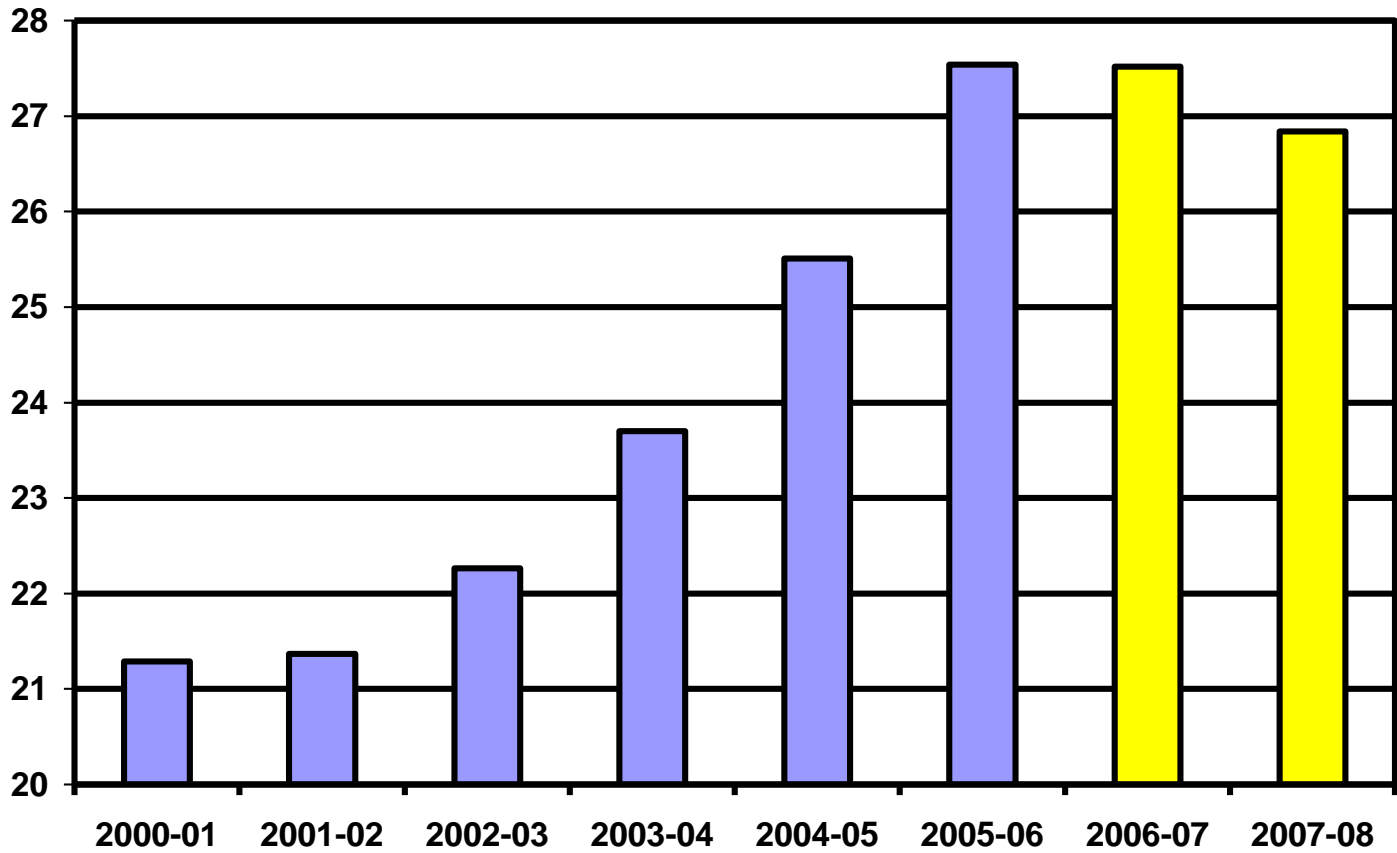


California General Fund: Adjusted Cash Flow
Fiscal Years Ending June 30



Note: 2008-09, 2009-10, 2010-11 affected by 1 cent tax increase

California Sales Tax: \$Billions





March 26, 2007



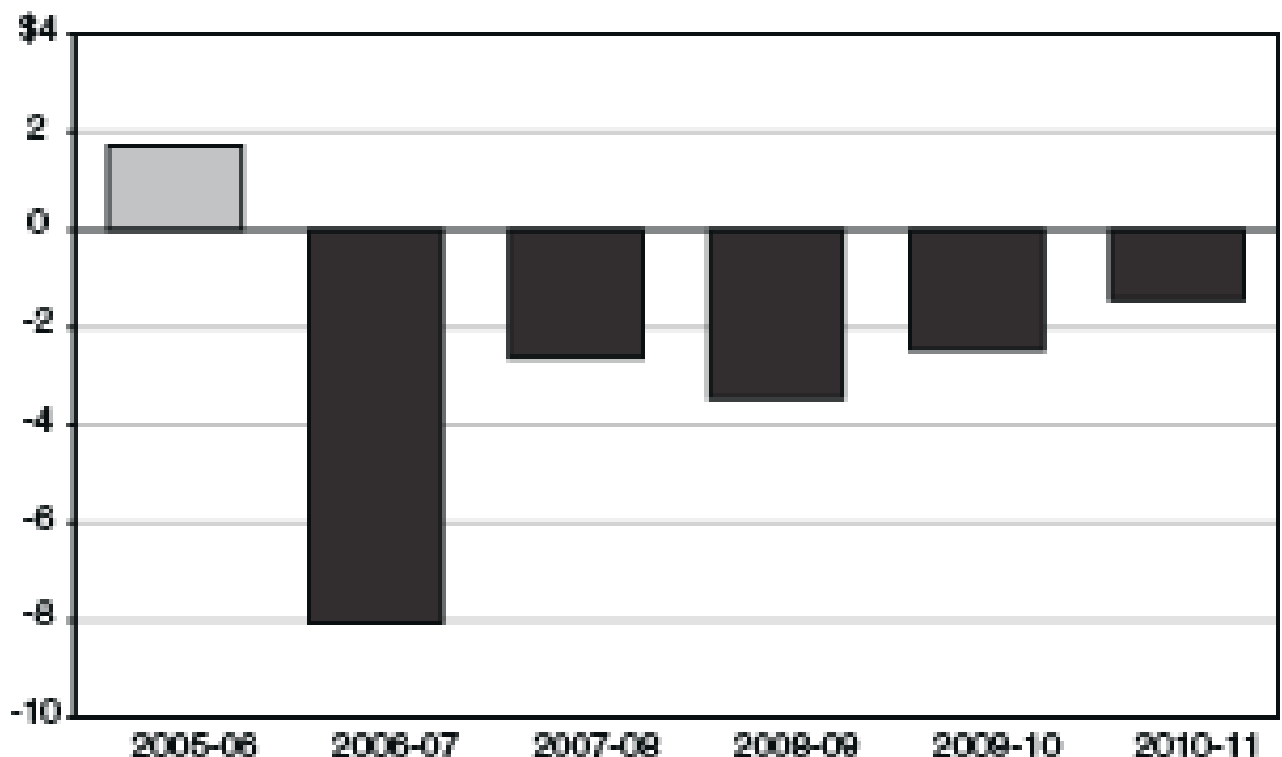
LAO Projections as of mid-Feb. 2007



Deficits

Significant Operating Shortfalls^a Would Remain

General Fund (In Billions)



^aAnnual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.

**When you are at the
peak, you can't fall up**



**When you are at the peak, you
can't fall up *except at Anderson***

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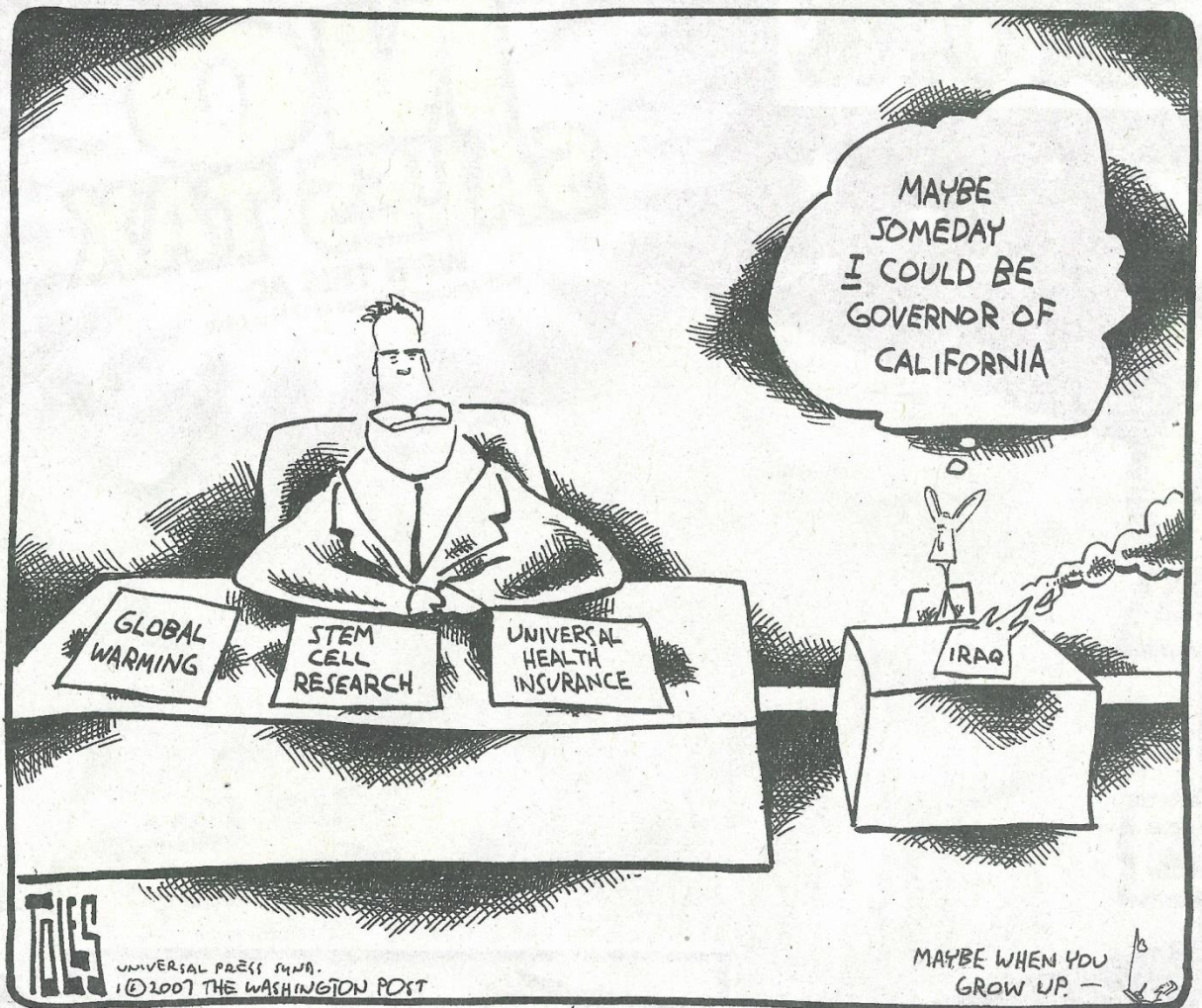


2007 Political Cartoon

OPINION

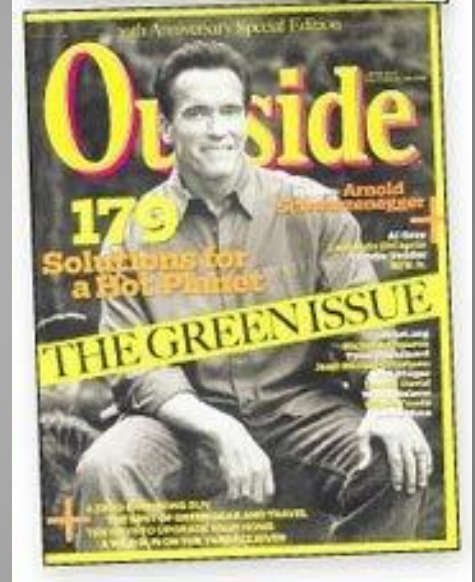
1/13/07

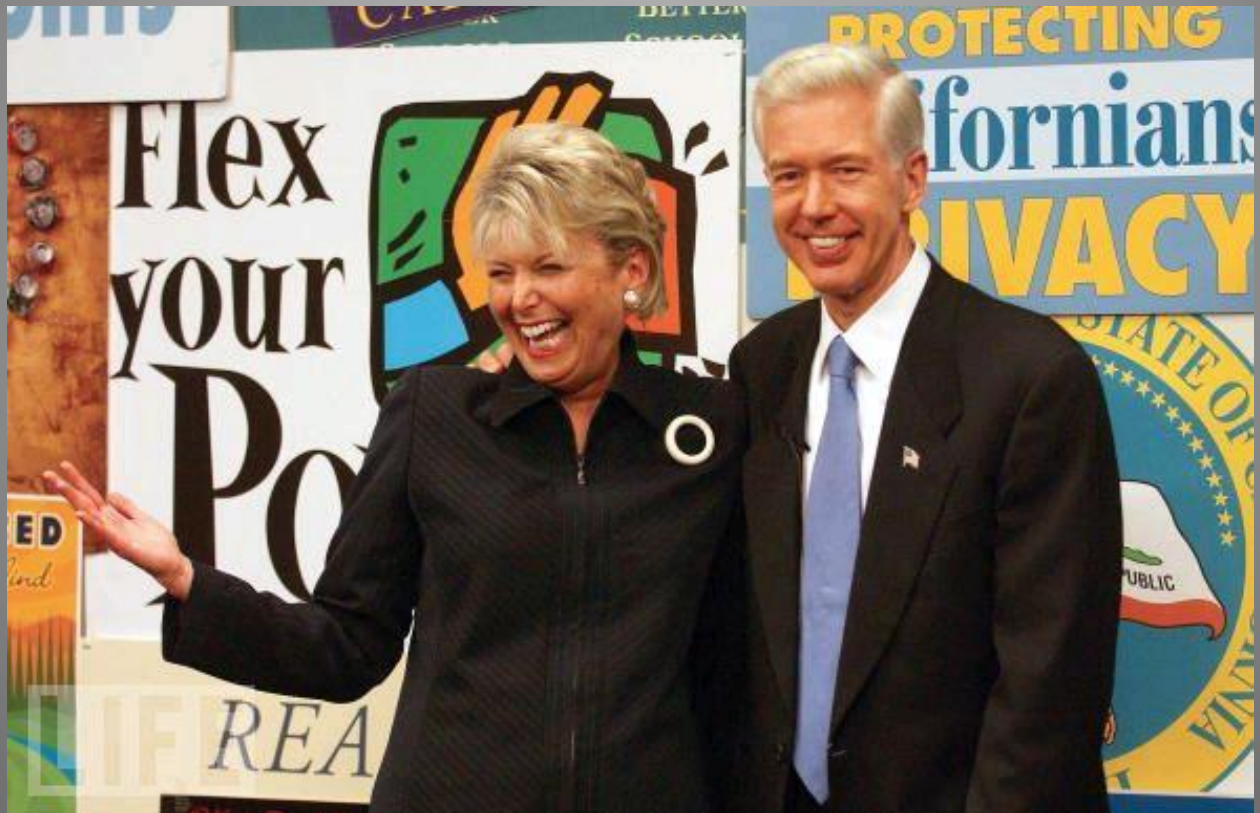
LOS ANGELES TIMES



TOM TOLES Washington Post

Macro- Management didn't help





Lynn Schenk and Gray Davis



**Micromanagement
didn't help**

fo'c'sle var.

focus n. (pl.

centre of in

visual def





supposed to be
Repetition is a teacher



The Usual Suspects



The Usual Suspects



2/3 vote for budget

2/3 vote for taxes

Proposition 13

**Voter-mandated spending formulas,
programs, bond issues**

Voter-imposed term limits

Volatile revenue stream

Gerrymandered districts

Party polarization

Direct Democracy

Direct Democracy

More Suspects



Surpluses and deficits don't have fixed common-English meanings

Stocks and flows are mixed

Budget concepts expressed without clear time period

Borrowing treated as revenue

Assets sales treated as revenue

Use of undefined terms by officials such as shortfalls, gaps, and holes



Short Fall?

Long Fall?





Short Fall?

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Paul Sakuma, Associated Press

California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and





CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

Assembly Republican Leader Mike Villines, R-Clovis



Holes





Holes

The Sacramento Bee CapitolAlert



PM Alert: Another \$8 billion hole

In case you missed it today: The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests**, **nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.





Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Question



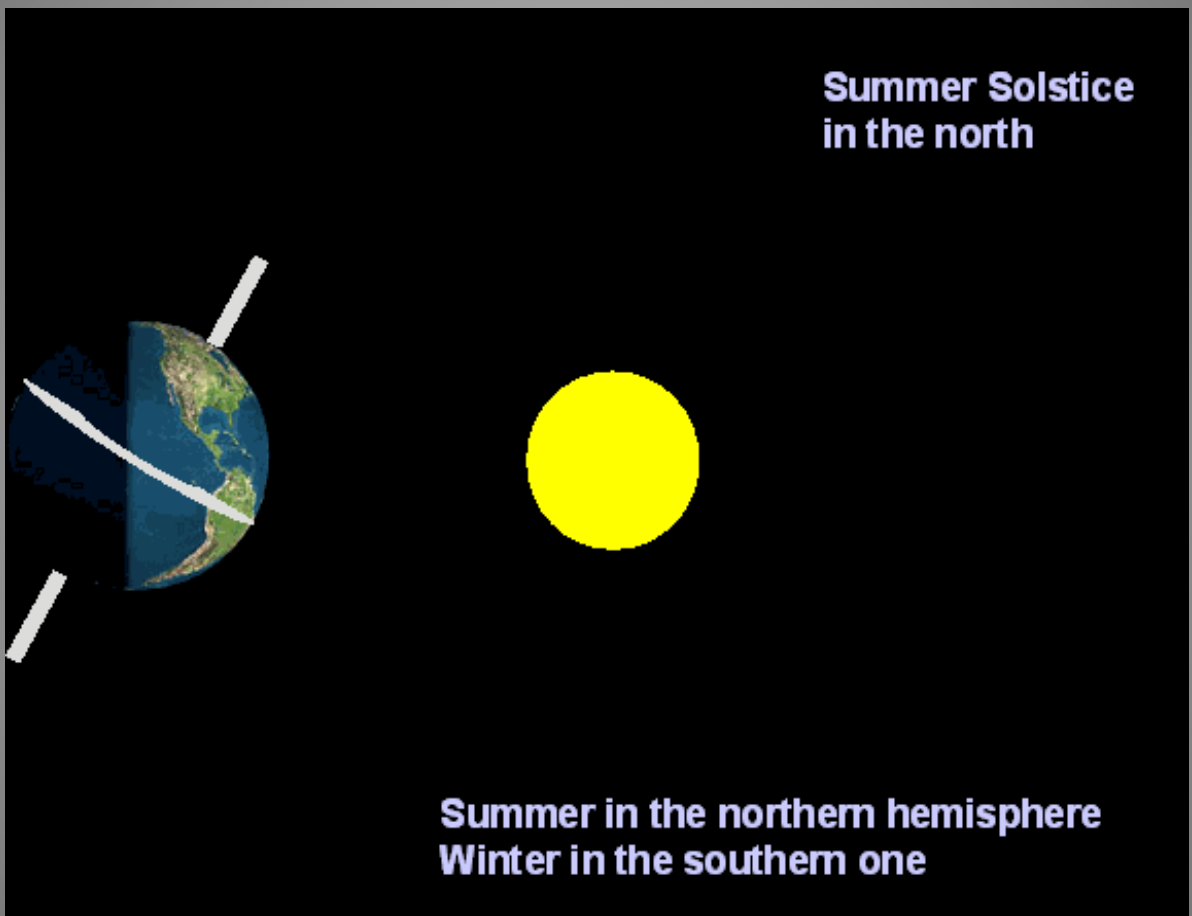
**\$100 billion
is an annual
flow. Is it really
likely that there
could have been
a \$60 billion
deficit in the
common
meaning of that
term?**



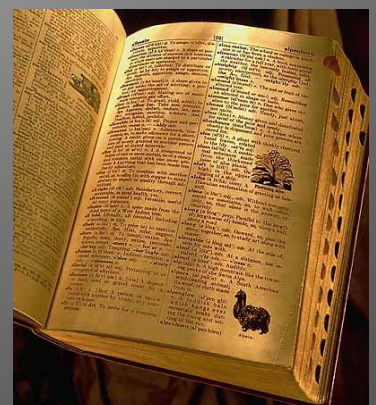
It's not just Steinberg



**“Deficit” should mean
income less than
expenditure...**



...during one year

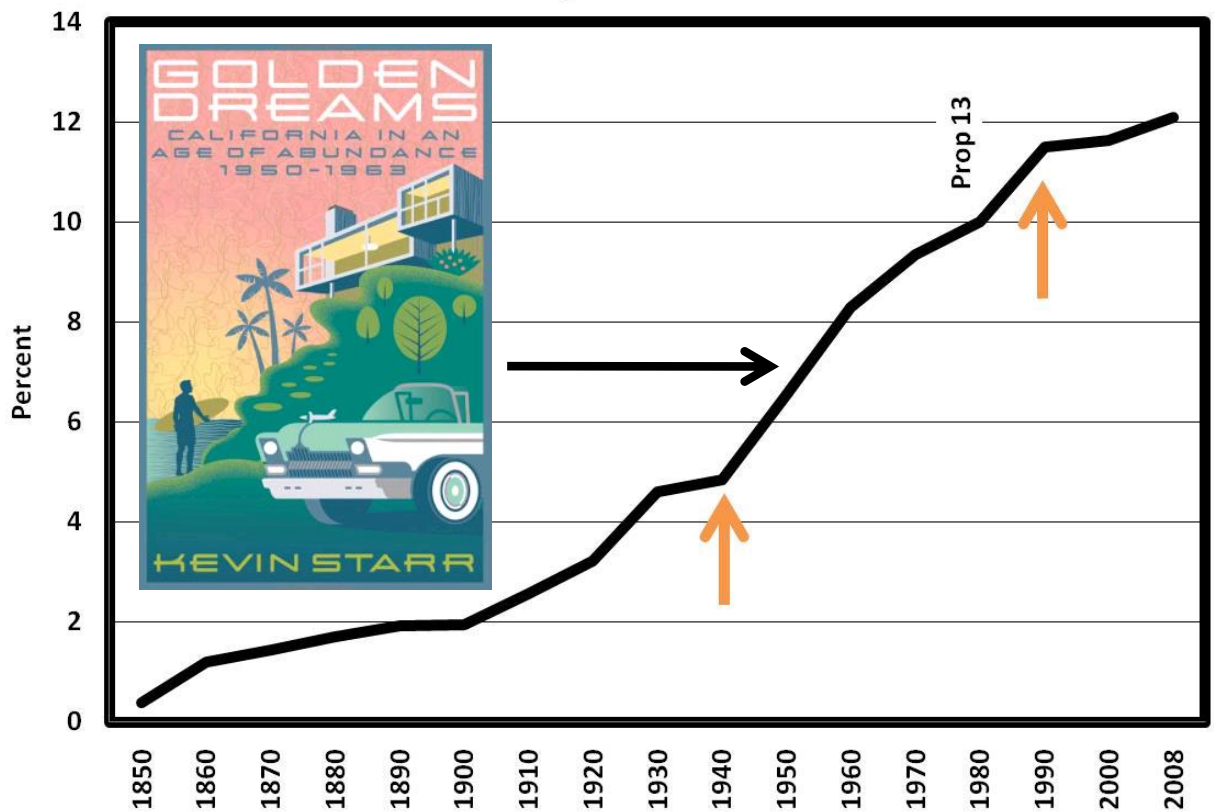


When was California's original sin?

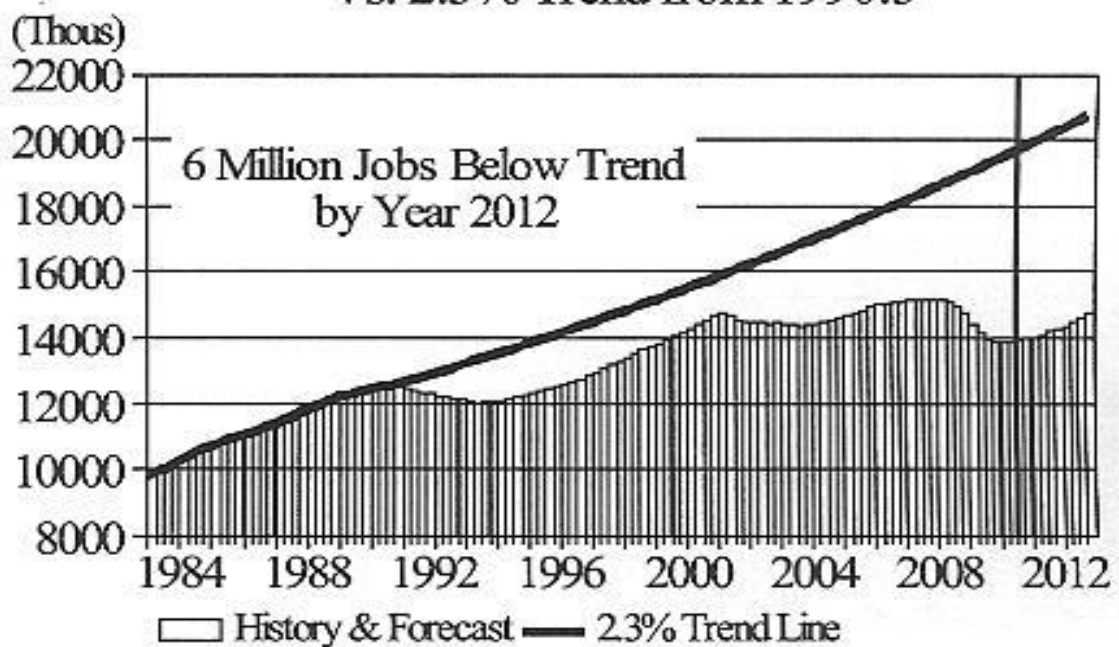


- **1910 & Direct Democracy?**
- **1978 & Prop 13?**

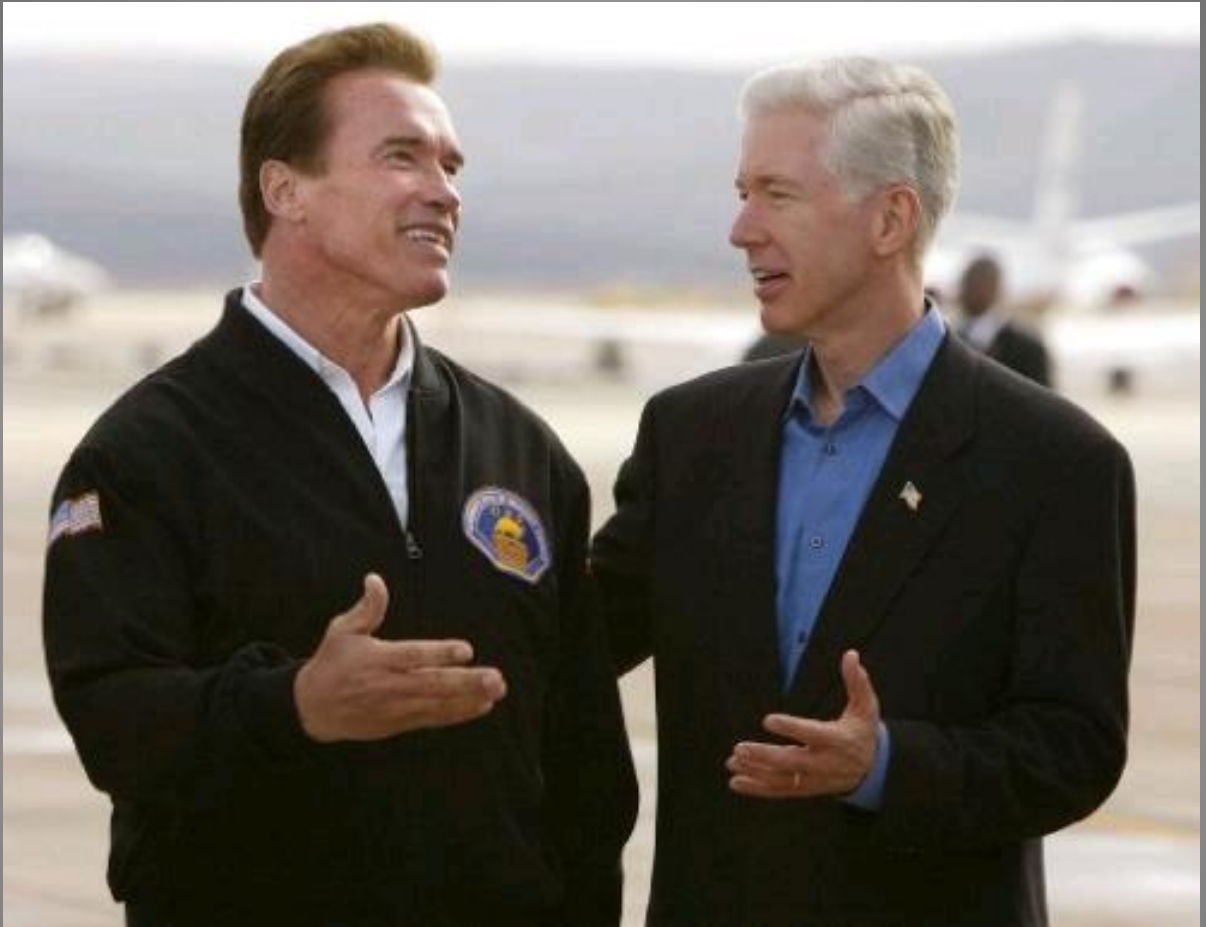
California Population Relative to US



California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3



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